

INTERNAL REVENUE SERVICE

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[REDACTED]

Dear [REDACTED]:

This letter is in response to your inquiry dated [REDACTED], on behalf of your constituent [REDACTED]. In her letter to you dated [REDACTED], [REDACTED] expressed her concern that the business standard mileage rates published by the Internal Revenue Service (IRS) for 1999 do not sufficiently reflect her automobile costs. I have enclosed a copy of [REDACTED] letter for your convenience.

The business standard mileage rate is based on an annual study of the fixed and variable costs of operating an automobile. The study, performed by an independent contractor that is an expert in the cost analysis of business use of automobiles, uses recent data from each state in the country indicating the various component costs of driving the most popular automobiles of various sizes. The study then combines this data to achieve a national composite cent-per-mile rate. The IRS announces the mileage rate in advance of the applicable year so that, throughout the year, taxpayers will know the extent to which automobile expenses may be treated as substantiated.

For the 1999 rate, the study indicated that, on average, the component automobile costs had decreased across the board compared to the costs analyzed in the previous year's study. The most dramatic decreases were caused by reduced gasoline prices and reduced loss of automobile value on resale (which resulted in a lower vehicle cost component). Consequently, the business standard mileage rate dropped from 32.5 cents per mile (the 1998 rate) to 31 cents per mile. As your constituent points out, the 31-cent rate became effective on April 1, 1999, rather than January 1, 1999; we delayed implementation of the lower rate because of administrative difficulties facing many employers in adjusting their mileage allowance procedures. The rate for 2000, determined in the same manner as previous rates, is 32.5 cents per mile.

We have seen gasoline and oil prices fluctuate dramatically over the last several years, but it is not administratively feasible for the IRS to account for these fluctuations more frequently than annually. However, the standard mileage rate is an optional method for calculating automobile expenses, and taxpayers generally may instead claim a deduction for their actual automobile expenses if properly substantiated.

I hope this information is helpful. Please contact Edwin B. Cleverdon, Identification Number 50-01366, at (202) 622-4920, if we may be of further assistance.

Sincerely,

Lewis J. Fernandez
Deputy Assistant Chief Counsel
(Income Tax & Accounting)

Enclosure